

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 STRE-00 STR-04 AGRE-00 EURE-00

SSO-00 NSCE-00 USIE-00 INRE-00 AID-05 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 TRSE-00

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PASS STR AND AGRICULTURE ELECTRONICALLY

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SUBJECT: POULTRY/COGNAC

REF: (A) PARIS 29922 (B) BONN 18660 (C) EC BRUSSELS 10670

(D) EC BRUSSELS 10802 (E) EC BRUSSELS 10803 (NOTAL)

(F) EC BRUSSELS 9942 (NOTAL)

1. WHEN ON FRIDAY, NOVEMBER 5, THE AMBASSADOR PRESENTED TO THE EC COMMISSION SOME NEW THOUGHTS AS TO HOW THE POULTRY/COGNAC PROBLEM MIGHT BE RESOLVED TO OUR MUTUAL SATISFACTION, AFTER DAY-LONG CONSIDERATION HANNAY, SPEAKING FOR ACTING COMMISSIONER FOR EXTERNAL RELATIONS GUNDELACH, CONVEYED THE FOLLOWING RESPONSE: "AFTER CAREFUL THOUGHT AND WITH GREAT RELUCTANCE, GUNDELACH HAD CONCLUDED THAT THE COMMISSION COULD OFFER NOTHING FURTHER," I.E., THAT ITS OFFER OF NOVEMBER 4 STOOD. IF THE UNITED STATES PROCEEDED TO ANNOUNCE HIGHER DUTIES ON COGNAC, THE COMMISSION PRESS LINE WOULD BE HIGHLY CRITICAL AND THE COMMISSION WOULD BE FREE TO PRESENT ITS VERSION OF THE DISPUTE. MOREOVER, THE US GOVERNMENT

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SHOULD UNDERSTAND THE COMMISSION COULD NO LONGER EXERCISE RESTRAINT

ON THE LEVEL OF SUPPLEMENTARY LEVIES APPLIED TO POULTRY IMPORTS. THIS WAS MEANT IN NO SENSE AS A THREAT OF RETALIATION BUT RATHER AS A REMINDER THAT SUCH RESTRAINT HAD BEEN EXERCISED SINCE JUNE AND THAT IN THE FUTURE THE CALCULATION OF SUPPLEMENTARY LEVIES WOULD BE IN STRICT ACCORDANCE WITH THE SYSTEM.

2. THESE VIEWS WERE, OF COURSE, CONVEYED BY TELEPHONE TO WASHINGTON, BUT WE THOUGHT IT WELL TO RECORD IN WRITING THIS COMMISSION POSITION. IT SEEMS TO THE MISSION THAT WERE RESTRAINT ON SUPPLEMENTARY LEVIES ON POULTRY IMPORTS TO CEASE, THE LAST HOPE FOR MAINTAINING SIGNIFICANT EXPORTS OF AMERICAN TURKEY PARTS TO EUROPE WOULD END. WHILE IT IS ARGUED IN SOME QUARTERS THAT TRADE HAS VIRTUALLY STOPPED AT PRESENT LEVELS OF PROTECTION AND THAT THEREFORE AN INCREASE OF PROTECTION WOULD HAVE LITTLE DAMAGING EFFECT, OUR TRADE SOURCES AND COMMISSION EXPERTS MAINTAIN THAT THE FALLOFF IN TRADE DURING THE SUMMER MONTHS IS A WELL-KNOWN SEASONAL PHENOMENON AND THAT TRADE COULD PICK UP EVEN AT PRESENT LEVELS OF PROTECTION IN THE LATE FALL AND WINTER MONTHS. WE HAVE NO INDEPENDENT JUDGMENT ON THIS POINT BUT CLEARLY IF PARTS CO-EFFICIENTS CAN BE REDUCED AND/OR THE SUPPLEMENTARY LEVIES HELD WHERE THEY ARE, CHANCES FOR TRADE ARE MUCH BETTER THAN IF SUPPLEMENTARY LEVIES ARE DRASTICALLY INCREASED. AS A MINIMUM WE BELIEVE THAT THE POULTRY TRADE SHOULD AGAIN BE CONSULTED ABOUT THE FACTS AND THEIR REACTION SOUGHT TO A SITUATION IN WHICH SUPPLEMENTARY LEVIES MIGHT EASILY RISE BY VERY LARGE AMOUNTS.

3. IT IS OUR VIEW THAT A DECISION TO RAISE COGNAC DUTIES WILL INEVITABLY COMPLICATE US RELATIONS WITH FRANCE, THE NETHERLANDS, AND THE COMMISSION AT LEAST, WHILE DOING NO GOOD AND PERHAPS CONSIDERABLE HARM TO OUR TURKEY EXPORTERS. DESPITE THE ISSUES OF PRINCIPLE AND OF NEGOTIATING CREDIBILITY INVOLVED AND THE FACT THAT THE COMMISSION OFFER IS A LIMITED ONE, MOST MEMBERS OF THIS MISSION OPPOSE A SNAP-BACK OF COGNAC DUTIES. IF WASHINGTON IS NOT PREPARED TO ACCEPT THE COMMISSION OFFER AS IT NOW STANDS, THEN WE BELIEVE THREE OTHER ALTERNATIVES, EITHER SEPARATELY OR IN COMBINATION, SHOULD BE EXPLORED ON AN URGENT BASIS.

4. THESE ALTERNATIVES ARE:

(A) WE HAVE NOT RECENTLY CONCENTRATED ON GETTING ACTION FROM THE LIMITED OFFICIAL USE

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FRENCH, WHO ARE THE MOST DIRECTLY INVOLVED, AND WHO HAVE INDICATED FROM THE PRIME MINISTER DOWN THEIR SERIOUS CONCERN ABOUT A SOGNAC DUTY INCREASE. WE HAVE A NUMBER OF REQUESTS THAT THE FRENCH COULD ACT ON ALONE IF THEY ARE TRULY INTERESTED:

(I) REQUESTS FOR FRENCH ACTION ON CHANGE IN SANITARY REGULATIONS IS APPARENTLY AT DEAD CENTER (REF A). THE FRENCH ARE WAITING TO SEE OUR REACTION TO THE COMMUNITY'S OFFER. WE COULD RENEW WITH

GREATER FORCE OUR DEMANDS ON THE SANITARY REGULATIONS AS A MINIMUM OBTAINING AGREEMENT TO AN EXPERT STUDY.

(II) WE COULD RUN IN THE POULTRY/COGNAC CONNECTION FOR A CHANGE IN THE FRENCH REGULATIONS TO ALLOW ADVERTISING OF BOURBON WHISKEY.

(III) WE HAVE AN ACKNOWLEDGED COMMERCIAL AMERICAN INTEREST IN MAINTAINING THE DUTY SUSPENSION ON 2-NITROPROPANE (REFS B AND C) WHICH ALLOWS A TRADE OF POSSIBLY \$2 MILLION (OUR ESTIMATE FROM PARTIAL 1974 FIGURES). FRANCE IS THE KEY ON THIS ISSUE.

(B) WE COULD ALTER OUR PART OF THE COGNAC/POULTRY PACKAGE BECAUSE THE COMMUNITY'S RESPONSE TO OUR REQUESTS HAS BEEN FAR LESS THAN WE EXPECTED (REFS D, E, F). THIS RESPONSE IS PARTICULARLY GALLING BECAUSE IT ASSUMES THAT THE UNITED STATES WOULD REDUCE CURRENT DUTIES ON DEXTRINE AND POTATO STARCH. WE COULD OF COURSE INFORM THE COMMUNITY THAT AS A RESULT OF THEIR LIMITED OFFER WE WOULD NOT RAISE THE COGNAC DUTY PRICE BUT NEITHER WOULD WE REDUCE THE DEXTRINE AND STARCH DUTIES. WE DO NOT BELIEVE THAT THIS ALTERNATIVE IS LIKELY TO BE SUCCESSFUL, PARTIALLY BECAUSE WE THINK THE COMMISSION WOULD THEN RESTRICT ITS OFFER ON TURKEY COEFFICIENTS. BUT EVEN IF IT DID NOT, WE BELIEVE THAT LOSS OF DUTCH SUPPORT IN THE POULTRY MANAGEMENT COMMITTEE WOULD MAKE IT IMPOSSIBLE FOR THE COMMISSION TO CARRY OUT ITS OFFER.

(C) THE THIRD ALTERNATIVE WOULD BE FOR US TO INFORM THE COMMUNITY THAT THOUGH DISSATISFIED WITH THE COMMUNITY'S OFFER WE WOULD NEVERTHELESS REFRAIN FROM INCREASING COGNAC DUTIES AND WE WOULD REDUCE DEXTRINE AND STARCH DUTIES. HOWEVER, WE WOULD STRESS THAT WE HAVE TAKEN SERIOUS NOTE OF THEIR STATEMENTS ABOUT RESTRAINT BEING CURRENTLY EXERCISED ON APPLICATION OF THE SYSTEM (E.G. PARA 2 REF F). CONSEQUENTLY, OUR MAINTENANCE OF THE COGNAC DUTIES AND REDUCTION IN THE DEXTRINE AND STARCH DUTIES WOULD BE TEMPORARY LIMITED OFFICIAL USE

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AND CONTINGENT UPON EC MAINTENANCE OF "RESTRAINT", I.E. THAT WE WOULD CONSIDER THAT INCREASES IN THE CURRENT LEVELS OF TOTAL PROTECTION WOULD NULLIFY THE DEAL AND LEAVES US FREE ONCE AGAIN TO CONSIDER INCREASES IN COGNAC, DEXTRINE AND STARCH DUTIES. HINTON

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